



Since we introduced our e-file program in 1994, the number of California taxpayers wanting to e-file has grown--and so has the number of electronic return originators

(EROs) servicing them. Note: For the year 2000, the number of e-file returns received is the projected total. The number of EROs is the actual total.

Practitioner Participation In e-file Growing Rapidly

Increasing numbers of tax practitioners are choosing to become electronic return originators because making more benefits available to clients makes sense.

What's in it for you?

- Your California head of household clients can complete an optional e-file questionnaire to reduce the chance of receiving a follow-up letter from FTB (In 1998, letters were sent to one percent of e-file HOH returns and to 13 percent of paper-filed HOH returns).
- Your e-file clients are less likely to receive any other follow-up letter. Using approved software ensures calculations are correct and data is presented in an approved format.
- You can prepare and e-file current-year federal and state personal income tax returns, including supporting forms and schedules as needed. Since 65 percent of e-filed returns include one or more

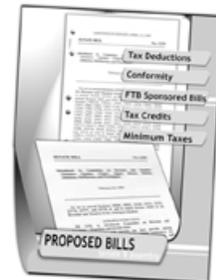
Continued on page 6

Inside...

Limited Liability Companies
Page 2

New Feature: Ask the Advocate
Page 3

Our Summary of Proposed Bills
Page 7



Tax News

Volume 00-3 May/June 2000

TAX NEWS is a bimonthly publication of the Communications Services Bureau, California Franchise Tax Board. Its primary objective is to provide information to income tax practitioners about state income tax laws, regulations, policies and procedures.

Members of the Board:

Kathleen Connell, Chair
State Controller
Dean Andal
Chair, State Board of Equalization
B. Timothy Gage
Director, Department of Finance

Executive Officer:
Gerald H. Goldberg
Editor:
Marvin Meek

To update or correct your address or to subscribe to **TAX NEWS** (send \$12 for a one-year subscription), write:
TAX NEWS
PO Box 2708
Rancho Cordova, CA 95741-2708
or call: (916) 845-7070.

To view **TAX NEWS** on the Internet or to request an electronic mail subscription, contact **FTB** on the Internet:
www.ftb.ca.gov

For information about a client's account, contact:
Tax Practitioner Support Unit
(916) 845-7057 (phone)
(916) 845-6377 (fax)

For recorded answers to questions on California taxes, to order forms or to check on a refund, call:
(800) 338-0505
From outside U.S. (916) 845-6600

To send a facsimile about a client's account, transmit to:
Electronic Correspondence
(916) 845-6377

Information Center:
(800) 852-5711
From outside U.S. (916) 845-6500

Hearing Impaired:
TDD (800) 822-6268

FTB on the Internet
www.ftb.ca.gov
Printed on recycled paper.

Limited Liability Companies: Greater Automation in Store for Program

Over the past four years, we have increased our accuracy in computing corporation and partnership taxes while improving the timeliness of our business entity refund and billing processes.

The reason is our new automated accounting system for corporation and partnership taxes, the Business Entities Tax System. Soon we will be able to do the same for limited liability companies.

We expect to have completed the transition of our Limited Liability Company Return Processing program into the Business Entities Tax System by this summer.

You can help us by performing a simple review of your limited liability company clients' returns.

Here's what to look for:

- Did your calendar year clients pay the 1998 limited liability company annual tax by April 15, 1998?
- Did your calendar year clients pay the 1999 limited liability company annual tax by April 15, 1999?

- Was the 1998 limited liability company annual fee correctly calculated? Was the calculation based on total income, not net income? And was it paid by the original due date of the tax return?

If you answered no to any of these questions, or if your clients made payments but they weren't made timely, then do the following:

- First, calculate the penalties and interest that are due for each taxable year to the date the payment will be made.
- Next, ask your client to pay the calculated amount by sending a separate payment for each taxable year using Form FTB 3522, Limited Liability Company Tax Voucher. Make sure the voucher is for the appropriate year.

By sending payment now for penalties and interest with the Form FTB 3522 tax voucher, your clients stop the accruing of additional penalties and interest on the balance due.

Did You Know...

Did you know that this year's California Package X CD-ROM contains more "fill-in" forms than last year's?

Fill-in forms are time savers because they allow users to enter

information while the form is displayed on the computer screen and then print the completed form.

Also, fill-in forms produce cleaner, crisper printouts to use for tax filing or record keeping.

New Law Qualifies State Credit Unions for Exemption

Editor's Note: For more information about state-chartered credit unions and Senate Bill 934, please refer to the article published in the March/April issue entitled "Like treatment for State, Fed Credit Unions."

Senate Bill 934 was signed into law on Oct. 9, 1999. This bill added a section to California Revenue and Taxation Code 23701 allowing state-chartered credit unions to qualify for exemption from franchise or income tax.

Before a state-chartered credit union can qualify for the exemption, it must

apply for the exemption by completing and submitting the Exemption Application Form 3500 to the Franchise Tax Board. This law applies to income years beginning on or after January 1, 1999.

SB 934 also exempts all credit unions from other state, county and municipal taxes and license fees, except certain specified taxes such as real property taxes, sales and use taxes, tax on unrelated business income and motor vehicle license fees.

State-chartered credit unions still remain subject to tax on unrelated business taxable income.

Client Changing Business Entity Status? Don't Forget to Notify EDD, BOE

File Corporation Tax Returns By June

Do you have clients who have not yet filed their 1998 corporate tax return?

It's never too late to file. Filing before June will help your client avoid receiving a Request to File notice from us.

If your client receives our request, however, and you believe that the corporation does not have a filing requirement, complete the accompanying questionnaire with your client and return it immediately.

We designed the questionnaire to identify corporation business activity conducted in California.

Respond immediately and your client will avoid additional penalties and fees.

If your client has already filed a California corporate tax return for 1998, send a signed copy of the complete return.

Although we make every effort to avoid erroneous contacts, occasionally corporations receive a Request to File notice when they do not have a filing requirement.

This happens when the business has ceased operating as a corporation, but continues to operate as a sole-proprietor or partnership using tax identification numbers assigned to the corporation.

You can help prevent this from reoccurring. Make sure your clients update their entity statuses and classifications with the Employment Development Department and the State Board of Equalization when they cease operating as a corporation.

Ask the Advocate



Anne Smith
Taxpayer
Advocate

Editor's Note: The Franchise Tax Board's Taxpayer Advocate receives hundreds of letters and emails every month. Most taxpayers have a tax problem that they would like FTB to help them resolve. Some, however, are just asking for information about our programs or tax laws. The purpose of this column is to let you, the practitioner, know some of the items that the Advocate staff is currently working on.

Did new Taxpayers' Bill of Rights legislation pass in 1999? What are some of the key provisions?

The Taxpayers' Bill of Rights Act of 1999 is the most recent Taxpayers' Bill of Rights legislation. Some of the provisions are:

- **Innocent Spouse Relief**

Taxpayers who filed a joint return and had no knowledge that their spouse underreported the amount of tax due may not be held responsible for payment of that deficiency. Specific conditions must be met to qualify for relief.

Continued on page 4

Corporation Tax Booklets Delayed

Business entity tax booklets, scheduled to be mailed in early February, were not mailed until March 8, 2000. The booklets included the Corporation Franchise or Income Tax Return (Form 100), the S Corporation Franchise or Income Tax Return (Form 100S) and the Exempt Organization Business Income Tax Return (Form 109).

California law provides an automatic seven-month extension to file for business entities — until October 15 for calendar year taxpayers. More than two-thirds of all business entities take advantage of the extension.

No taxpayers will be assessed a penalty for not filing by March 15, 2000. Franchise Tax Board staff sincerely apologize for any inconvenience this delay may have caused California businesses.

Flawed Forms Cause Problems for Direct Deposit Customers

We are having problems processing some tax practitioner produced scannable forms. Two significant problems affect taxpayers' direct deposit refund requests.

Problem #1

ORRTAX Software, Inc. has instructed its customers to change or update their computer equipment in order to produce FTB-approved forms with the company's software. However, some practitioners who use their software have not complied.

Those practitioners who have not complied with the software vendor's instructions are producing forms that do not meet the specifications outlined in our FTB Pub. 1098, Guidelines for the Development and Use of Substitute, Scannable, and Reproduced Tax Forms.

As a result, our image recognition systems cannot accurately process specific fields on these forms.

In some cases, this has caused us to erroneously input data into the direct deposit field of tax returns for taxpayers who have not requested direct deposit.

We have manually identified and corrected many of the flawed forms; however, we have also issued erroneous notices (Form FTB 4028) to some of the affected taxpayers, informing them that their refunds could not be deposited directly into their bank accounts due to incomplete banking information.

ORRTAX has contacted the practitioners who we identified as having the problem. If you think you may be affected by this problem contact ORRTAX Technical Support at (425) 641-4357.

Problem #2

The second problem is the result of a programming error found in the first

Continued on page 5

Ask the Advocate

Continued from page 3

- **Suspension of Interest/Fail to Notify**

FTB must notify taxpayers of any changes in their tax liability within 18 months of the date they filed the tax return, or the return due date, whichever is later. Failure to do so results in suspension of interest and penalties for the period that begins at the end of the 18 months and ends after FTB provides the taxpayer with a notice. Special rules apply if the Internal Revenue Service changes the taxpayer's liability.

- **Waiver of Early Withdrawal Penalties**

If FTB levys a taxpayer's retirement plan to collect delinquent taxes, and the taxpayer is subjected to an early withdrawal penalty, no early withdrawal penalty will be assessed for California purposes.

You can read more about this legislation in our new brochure entitled Highlights of California Taxpayers' Bill of Rights Act of 1999 (FTB 4064).

The brochure is available on FTB's website www.ftb.ca.gov and can also be ordered by calling the Tax Practitioner Support Unit at (916) 845-7057.

Flawed Forms

Continued from page 4

release of software distributed by ATX Forms, Inc. Scannable forms produced by this software contain incomplete data in the direct deposit routing transit number field of the tax form's scanband.

When this occurs, we are unable to process the direct deposit request and we issue a notice to the affected taxpayers informing them that their refunds could not be deposited directly into their bank accounts due to incomplete banking information. ATX has subsequently fixed the problem.

If you think you may be affected by this problem, contact ATX Technical support at 1(800) 638-8291.

Early software versions

Though uncommon, we occasionally get returns that are prepared on early

Are you Using FTB-approved Forms?

If you are using scannable forms, make sure they meet our requirements. If they do not, delays may occur during processing. In some cases, we may not be able to process your clients' forms.

If you are unsure whether your software is producing FTB-approved forms, ask your software vendor to provide you

draft versions of tax software. Tax software developers may send out a draft of their product prior to sending a final version and, even after the final version, they often will send subsequent software program updates.

Always review the updates as soon as you receive them. This will help to ensure that the returns you prepare are correct. When applicable, you should register with your software developer so you can get all upgrades, corrections and additions to their programs.

If the software package you received indicates that it's a draft or a preliminary copy, or contains statements such as "do not file," "approval pending," etc., do not use that version of the software to file your customers' returns. These are not FTB approved.

with a letter of approval for each FTB form you intend to use this filing season.

For additional information about how to prepare substitute and scannable forms, please get FTB Pub. 1095D, Tax Practitioner Guidelines for Computer-Prepared Returns.

FTB Calendar

May

- Notices of Proposed Assessments are mailed to corporations that failed to comply with requests issued in prior months for 1997 tax returns.
 - Notices of Proposed Assessments are mailed to individuals who have not filed their 1998 tax returns.
- 22 Previous month nonresident withholding payments are due if total withholding exceeded \$2,500.

June

- Questionnaire/Demands will be mailed to corporations that did not file 1998 returns.
 - Notices of Proposed Assessments are mailed to corporations that failed to comply with requests issued in prior months for 1997 tax returns.
 - Notices of Proposed Assessments are mailed to individuals who have not filed their 1998 tax returns.
- 15 Second quarter 2000 personal income tax estimate payments are due.
- 22 Previous month nonresident withholding payments are due if total withholding exceeded \$2,500.

July

- Requests for Tax Return are mailed to individuals who have not filed their 1998 personal income tax return.
- Notices of Proposed Assessments are mailed to individuals who have not filed their 1998 personal income tax return.

Interest Rates

For the period of July 1, 2000, through December 31, 2000, the interest rate on underpayments and overpayments of California income taxes will be **eight percent**. The following table lists interest rates since January 1990.

Effective Date	Rate	Effective Date	Rate
1 Jan. 1990- 30 June 1990	11%	1 July 1993- 31 Dec. 1993	7%
1 July 1990- 31 Dec. 1990	11%	1 Jan. 1994- 30 June 1994	7%
1 Jan. 1991- 30 June 1991	11%	1 July 1994- 1 Dec. 1994	7%
1 July 1991- 31 Dec. 1991	10%	1 Jan. 1995- 30 June 1995	8%
1 Jan. 1992- 30 June 1992	10%	1 July 1995- 31 Dec. 1995	9%
1 July 1992- 31 Dec. 1992	9%	1 Jan. 1996- 30 June 1996	9%
1 Jan. 1993- 30 June 1993	8%	1 July 1996- 31 Dec. 1996	9%
		1 Jan. 1997- 30 June 1997	9%
		1 July 1997- 31 Dec. 1997	9%
		1 Jan. 1998- 30 June 1998	9%
		1 July 1998-31 Dec. 1998	9%
		1 Jan. 1999-30 June 1999	8%
		1 July 1999-31 Dec. 1999	7%
		1 Jan. 2000-30 June 2000	8%
		1 July 2000-31 Dec. 2000	8%

e-file

Continued from page 1

schedules, you can handle virtually all your clients' returns in the same way.

- Prepare and e-file California Form 540NR for nonresident and part-year resident clients.
- You get e-file marketing support from us and the Internal Revenue Service.

What's in it for your clients?

- They receive confirmation that IRS and FTB received their returns. A recent FTB survey points to confirmation as the most appealing feature of e-file for 62 percent of respondents.
- They can choose direct deposit of a refund and see the funds in their account in 7-10 banking days (state) or 8-14 days (federal).
- They can choose to e-pay a balance due. Funds will be withdrawn on the date they specify.

Here's how to join:

Step 1: Apply for a federal Electronic Filer Identification Number/Electronic Transmitter Identification Number by completing federal Form 8633. You can get this form from the IRS website, www.irs.gov.

Step 2: Pass the IRS suitability test. The purpose of the suitability check is to ensure that the applicant is in compliance with federal tax laws by verifying that:

- all business entities are valid and licensed;
- all personal and/or business tax returns are timely filed; and
- all liabilities are paid and/or

current. If you are in payment arrangement status, you are in compliance.

Step 3: Complete California Form 8633. You can get this form from the Electronic Services webpage found on the FTB website at www.ftb.ca.gov.

Step 4: Pass the FTB suitability test.

What do you need to get started?

- IRS/ FTB approved tax preparation software to format the data correctly.
- Computer capable of handling software selected.

- Modem to transmit the data.
- Printer to print copies of federal and state returns for your client and to print the signature documents: federal Form 8453 and FTB form 8453 (remember to retain signed copies for your files as specified).
- IRS Pub 1345, Handbook for Electronic Return Originators.
- FTB Pub 1345, The e-file Handbook.

Where can you get more information?

Attend an IRS/FTB e-file seminar this summer. Check out the e-file calendar at www.ftb.ca.gov/electroserv/efile for dates and locations .



Visit the New California Tax Information Center

The California Tax Information Center, an easy to use website, allows users to find income, payroll, sales and use, special, and property tax information, all in one location.

The site, located at www.taxes.ca.gov, is a joint effort of the Board of Equalization, Employment Development Department, Franchise Tax Board and the Internal Revenue Service.

The site features:

- An in-depth tax calendar.
- Addresses and telephone numbers for local offices.
- Downloadable forms.

- Various tax planning resources.

The Special Circumstances webpage, also featured on the website, offers helpful information on handling the tax effect of disasters, divorce, fraud, payment proposals and more.

The California Tax Information Center is a good way for your clients, (especially small business owners) who are nonresidents or new to California, to get an overview of California taxes and other general tax information. Business owners can learn how to start, run or close a business; get information on how to report business taxes; or search for additional information via the many links provided.

Proposed Bills

Conformity

Among the measures being considered by the California Legislature are some that involve conformity with the Internal Revenue Code.

SB 1760 (Speier) would further conform to federal income tax laws by excluding contributions of appreciated property as a tax preference item for purposes of calculating the alternative minimum tax. A corresponding change would be made to the minimum tax credit allowing contributions of appreciated stock to be deducted at their full fair market value.

FTB Sponsored Bills

Among the measures being considered by the California Legislature are several Franchise Tax Board sponsored bills. Many of these bills also involve conformity.

AB 1843 (Ackerman) would replace the references to *income year* with *taxable year* in all provisions of the Bank and Corporation Tax Law, Personal Income Tax Law and the Administration of the Franchise and Income Tax Law. If a provision refers to a tax measurement period beginning prior to the operative date of the bill, the term taxable year would mean income year under prior law wherever applicable.

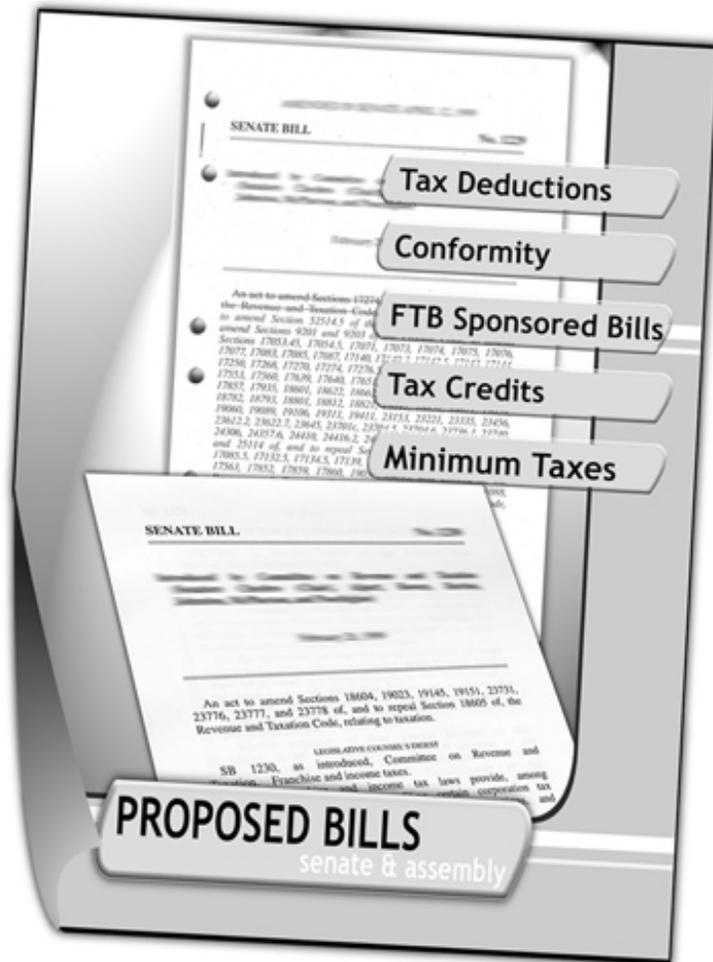
The bill would specify that the franchise tax, like the income tax, would be computed based on the net income for the taxable year, instead of based on

the net income of the next preceding income year. This bill would include legislative declaratory language that the sole purpose of the change is to simplify the law and that the actual amount of tax and the timing of the payment will not change as a result of this bill.

Further, this bill states that if a taxpayer can demonstrate that it was required to accelerate any payment of tax as a

result of this change, the department would adjust the amount and due date of each payment of tax to the amount and due date that would have been required under the law prior to the enactment of this bill.

This bill would make related changes to the provision that exempts new corporations from payment of the minimum franchise tax at the time of incorporation and for its first tax return



Proposed Bills

FTB Sponsored Bills

to prevent the bill's changes from extending the exemption to the second tax return (formerly the third taxable year).

AB 2741 (Alquist) would fundamentally reform the water's-edge election procedures. Water's-edge elections would no longer be made by contract, but by statutory election.

AB 2892 (Assembly Revenue and Taxation Committee) would amend and restructure a significant number of tax laws, particularly those regarding tax and information returns and unpaid interest and deficiencies, to more closely conform to federal law by referencing the federal code rather than duplicating its language.

AB 2893 (Assembly Revenue and Taxation Committee) would amend and restructure the state tax laws regarding exempt organizations to more closely conform to federal law by referencing the federal code rather than duplicating its language.

AB 2895 (Assembly Revenue & Taxation Committee) would amend the Local Agency Military Base Recovery Areas and Manufacturing Enhancement Areas hiring credit statutes to be consistent with the vouchering requirements currently in the statutes relating to enterprise zones.

AB 2896 (Assembly Revenue & Taxation Committee) would allow the Franchise Tax Board to continue its current practice of using the tax return or the electronically captured information from that tax return, with respect to deficiency determinations. If the return or information is not

available, the taxpayer would be notified and have 30 days to provide a paper or electronic copy of the tax return to FTB, upon request, (A similar bill has been proposed in the Senate).

Additionally, FTB would be required to include in the tax booklet a statement that taxpayers may be requested to furnish FTB with a copy of California or federal tax returns that may be the subject of or related to a federal audit.

AB 2897 (Assembly Revenue & Taxation Committee) would amend existing state law regarding the computation of interest with respect to a court action to eliminate language which conflicts with the more general state law that describes when the calculation of interest begins on an erroneous refund amount. This bill also would amend a Corporations Code section to correct a reference to the Revenue and Taxation Code (R&TC) section and amends an R&TC section to substitute *subdivision* for the incorrectly used *subsection*.

SB 2171 (Senate Revenue & Taxation Committee) would remove the commercial domicile restriction from

Section 24410 allowing all corporations, regardless of where commercially domiciled, to deduct dividends received from an insurance company subsidiary operating in California and subject to the gross premiums tax.

SB 2173 (Senate Revenue & Taxation Committee) This bill would clarify that with respect to lump sum amounts received by a lottery prize winner assignor, transactions made relating to the assignment of the right to receive future payments of lottery prize awards, are exempt from state and local taxes.

SB 2176 (Senate Revenue & Taxation Comm.) would amend and restructure a significant number of tax laws, particularly those regarding information returns, exempt organizations, unpaid interest and deficiencies, to more closely conform to federal law by referencing the federal code rather than duplicating its language.

This bill would amend the Local Agency Military Base Recovery Areas

Continued on page 9

Legislative Analyses on the Internet

Would you like to know more about a legislative measure you read about in Tax News? We post analyses of legislation on our website.

Go to www.ftb.ca.gov and click on the Law and Legislation button. There you will find a preview of proposed tax law changes and how they might affect your clients if the legislation becomes law.

We also post proposed and final regulations, legal notices and rulings, and links to the Revenue and Tax Law and the California Code of Regulations.

You can find legislative measures at www.leginfo.ca.gov, the Official California Legislation Information website.

Proposed Bills

FTB Sponsored Bills

Continued from page 8

and Manufacturing Enhancement Areas hiring credit statutes to be consistent with the vouchering requirements currently in the statutes relating to enterprise zones. This bill also would make several minor technical corrections to various statutes, to eliminate inconsistencies or correct references.

Tax Credits

Among the measures being considered by the Legislature are some that would either create new tax credits or modify existing ones.

AB 1804 (Scott) would increase the adjusted gross income thresholds for purposes of determining renter's credit eligibility. The AGI thresholds would increase as follows:

- From \$50,000 to \$60,000 for married filing joint, head of household and surviving spouse.
- From \$25,000 to \$30,000 for individuals.

AB 1811(Reyes) would delete the existing farmworker housing credit and instead would specify within the low-income housing credit that \$500,000 would be allocated to the construction or rehabilitation of farmworker housing. The bill would define qualified farmworker housing. The credit would not be allowed unless the taxpayer constructs or rehabilitates the property subject to the codes, covenants,

conditions and restrictions of the low income housing credit and the Farmworker Housing Assistance Program.

This bill also would eliminate the credit for foregone interest on loans for the construction or rehabilitation of farmworker housing for banks and financials.

AB 1903 (Lowenthal) would allow the California low-income housing credit to be transferred, sold or assigned separately from the federal low-income housing credit.

AB 1923 (Cardenas) would create two credits. The first credit would equal 50 percent of qualified expenditures for a qualified child care facility, as defined. Qualified expenditures would include only monetary contributions in excess of \$4,000 and would be capped in two ways. For a single facility, qualified expenditures would be limited to \$400,000. For any qualified taxpayer, total expenditures for all facilities would be limited to \$2 million. The credit would be limited to \$150,000 for any one taxable or income year and the aggregate credit (for all years) for each taxpayer would be limited to \$1 million. The taxpayer would be required to provide certification to the Franchise Tax Board, upon request. The credit would not be allowed for any taxpayer required by any local ordinance or regulation to provide a child care facility. The credit would be effective for taxable or income years beginning on or after January 1, 2000, and before January 1, 2005, and any excess credit could be carried over for six years. The credit also could reduce regular tax below the tentative minimum tax.

Second, this bill would allow a bank or financial corporation a credit equal to 50 percent of the foregone interest income on loans used to finance expenditures to purchase, construct,

expand or rehabilitate a qualified child care or development facility. The credit would be taken in equal installments over the lesser of 10 years or the term of the loan. The credit would not apply to loans with a term of less than three years or to loans funded prior to January 1, 2000. The credit would be effective for income years beginning on or after January 1, 2000, and before January 1, 2010.

FTB would be required to report, upon request of the Legislature, specified information related to the credit for foregone interest income.

AB 1924 (Runner) would allow a credit equal to the amount paid or incurred for the overhead cost of the specific business unit related to the Aerospace Training Competitiveness Improvement Program located within an enterprise zone. The credit would be effective for income years beginning on or after January 1, 2000, and before January 1, 2004, and any excess credit could be carried over until exhausted.

The bill also would make changes under the Government Code regarding an aerospace training program within enterprise zones.

AB 1953 (Cunneen) would modify the research and development credit as follows:

- Increase the credit percentage for "qualified research expenses" from 12 percent to 15 percent.
- Decrease the minimum threshold for the taxpayer's base amount in computing the R&D credit from not less than 50 percent to not less than 35 percent of the taxpayer's current year qualified research expenditures.

Continued on page 10

Proposed Bills

Tax Credits

Continued from page 9

AB 2097 (Davis) would allow a credit equal to the federal credit for expenses for household and dependent care services necessary for gainful employment. The federal credit percentage varies from 20 percent to 30 percent of qualified expenses. Qualified expenses are limited to \$2,400 for one qualifying individual and \$4,800 for two or more qualifying individuals. Any excess credit could be carried over until exhausted.

AB 2170 (Rod Pacheco) would allow a credit equal to an unspecified amount of farm losses suffered by farmers in this state as a result of any natural disaster. For purposes of this bill, natural disaster would include pest infestations. Any excess credit could be carried over until exhausted.

SB 1336 (Monteith) would allow a credit equal to the guarantee fee paid or incurred to the United States Small Business Administration to obtain guaranteed financing. The credit would be allowed only for a guarantee fee paid in connection with a business located in a county that has twice the average California unemployment. Any excess credit could be carried over until exhausted.

SB 1369 (Poochigian) would allow a credit for the eligible fees paid or incurred on behalf of any student who is a resident of California. The credit amount would equal:

- 100 percent of the eligible fees up to \$350;
- 50 percent of the eligible fees in excess of \$350.

Eligible fees would include application fees for the Advanced Placement Examination, the Scholastic Aptitude Test, the University of California, the California State University or a California private university. The taxpayer would be required to provide to Franchise Tax Board, upon request, substantiation of the amount of the eligible fees paid. The credit would be allowed for more than one examination and for more than one student. The credit would be in-lieu of any otherwise allowable deduction for the contribution (fees). The credit would be effective for taxable or income years beginning on or after January 1, 2000 and before January 1, 2005 and any excess credit could be carried over for five years.

SB 1416 (Rainey) would allow a credit equal to 100 percent of the reimbursable services provided by a physician and surgeon for Medi-Cal services that would otherwise qualify for reimbursement by the state. The credit would be in lieu of any other reimbursement for which the taxpayer would be entitled. Any excess credit could be carried over until exhausted.

SB 1421 (Solis) would allow a refundable credit equal to 15 percent of the federal earned income credit. The credit would not be allowed to a nonresident for any portion of the year, any married person that files married filing separate or any person who does not have a qualifying child, as defined. The credit would be allowed to reduce regular tax below the tentative minimum tax.

The Franchise Tax Board would be required to provide training to employers to enable employees to adjust their withholding allowances to reflect the credit.

Interest would be allowed on the overpayment, if the overpayment is not

refunded or credited within 90 days after the return is filed or within 90 days after the last day prescribed for filing a return (without regard to extension), whichever is later.

The credit would be effective for taxable years beginning on or after January 1, 2000, and before January 1, 2005.

SB 1427 (Rainey) would allow a credit equal to 40 percent of the cost paid or incurred by an employer for subsidized public transit passes to an employee. The bill would define employer, employee and transit pass. The credit would be in lieu of any otherwise allowable deduction for the cost of any subsidized transit passes. The credit would be effective for taxable or income years beginning on or after January 1, 2000, and before January 1, 2005, and any excess credit could be carried over for 11 years.

The California Research Bureau would be required to report to the Legislature by January 1, 2004, on specified information related to this credit.

The revenue loss attributable to this credit would not be considered by the Department of Finance in calculating General Fund revenue for purposes of reducing the vehicle license fee.

SB 1438 (Rainey) would allow a 100 percent credit for qualified educational expenses paid or incurred, not to exceed \$200, by any teacher or parent at a qualifying educational institution.

Qualified educational institution would mean any public elementary, secondary or vocational-technical school in this state for grades K through 12, inclusive. The credit would be in lieu of any otherwise allowable deduction for the same expenses. The credit would be effective for taxable or income years

Continued on page 11

Proposed Bills

Tax Credits

Continued from page 10

beginning on or after January 1, 2000, and before January 1, 2005, and any excess credit could be carried over until exhausted.

SB 1481 (Mountjoy) would increase the senior exemption credit. The existing senior credit (65 or over) would be multiplied by a factor of 2, 3 or 4 for taxpayers 75 years or older, 85 years or older or 95 years or older, respectively.

SB 1495 (Brulte) would modify the research and development credit (R&D) as follows:

- Increase the credit percentage for “qualified research expenses” from 12 percent to 15 percent.
- Decrease the minimum threshold for the taxpayer’s base amount in computing the research expenses credit from not less than 50% to not less than 20% of the taxpayer’s current year qualified research expenditures.

SB 1553 (Monteith) would allow a credit equal to the sales or use tax paid or incurred for agricultural equipment, as defined. The credit would be effective for taxable or income years beginning on or after January 1, 2000, and before January 1, 2006, and any excess credit could be carried over until exhausted.

SB 1691 (Speier) would allow a 75 percent credit for allowable costs incurred in establishing and maintaining a domestic violence awareness program. The bill would define “domestic

violence awareness program” and “allowable costs.” The credit would be allowed to reduce regular tax below tentative minimum tax and any excess credit could be carried over until exhausted.

SB 1726 (Burton) would allow a credit equal to an unspecified percentage of the amount paid or incurred to lease or purchase a new zero-emission vehicle. The credit would be limited to \$3,000 per vehicle per year. The credit would apply to new vehicles whose lease or purchase begins between January 1, 2001, and December 31, 2002. The bill would define “zero-emission vehicle.” The California Air Resource Board shall administer the determination of vehicle eligibility for Franchise Tax Board. The credit would be effective for taxable or income years beginning on or after January 1, 2000, and before January 1, 2006, and any excess credit could be carried over until exhausted.

SB 1799 (Leslie) would allow a credit equal to the amount paid or incurred to the United States Small Business Administration as a guarantee fee to obtain guaranteed financing. Any excess credit could be carried over for five years.

Tax Deductions

AB 2095 (Lempert) would allow a qualified taxpayer a 50 percent deduction for contributions made to a Scholarshare Trust on behalf of any qualified beneficiary. The definition of a qualified taxpayer would be based upon the taxpayer’s federal adjusted gross income. The deduction would be limited to \$1,200 per taxable or income year for each qualified beneficiary.

The Franchise Tax Board would be required to annually report, to the

extent data are available, on the use of this deduction. The deduction would be effective for taxable or income years beginning on or after January 1, 2000, and before January 1, 2005.

AB 2096 (Davis) would allow a \$500 deduction for a taxpayer who provides long-term care for any eligible family member in the taxpayer’s principal place of residence. The bill would define eligible family member and long-term care. Any excess credit could be carried over until exhausted.

SB 1453 (Schiff) would allow a deduction, not to exceed \$10,000, for the amount paid or incurred by the taxpayer for college tuition costs at special educational institutions for the taxpayer or a dependent of the taxpayer.

SB 1752 (Poochigian) would allow a qualified teacher a deduction for unreimbursed qualifying classroom educational expenses, not to exceed \$500, paid or incurred at a qualifying educational institution. The bill would define “qualifying classroom educational expenses,” “qualified teacher,” and “qualifying educational institution.” The deduction would be effective for taxable years beginning on or after January 1, 2000, and before January 1, 2005.

Get Tax News Online

Tax News is available electronically. For no charge, we’ll send Tax News to you via email. You can also go to our webpage, located at www.ftb.ca.gov/education and access current and past issues.

If you have questions about any of our Tax News products or services, call our Help Desk at (916) 845-7070.

Tax News

PO BOX 2708
RANCHO CORDOVA CA 95741-2708

Presorted
First-Class Mail
U.S. Postage Paid
Sacramento, CA
Permit No. 312

Address Service Requested